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TREASURY FOR BLINDQUIST  
COMMERCE FOR KMANN

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [ECIN](#) [CI](#)  
SUBJECT: CHILE: MONTHLY ECONOMIC HIGHLIGHTS - SEPTEMBER AND OCTOBER

REF: SANTIAGO 868 AND PREVIOUS

11. SUMMARY: Despite recent positive signs, Chile's economy is still working through the negative effects of its recession. Economic activity contracted again in August and September. The unemployment rate in Chile decreased to 10.2% for the first time after nine increases in a row. Although inflation experienced a small uptick in September, it remained unchanged in October, and the annual rate fell to -1.9%. Chile's Central Bank maintained the key interest rate at 0.5% in October. Trade numbers were slightly lower as was investment. Government spending increased as did Chile's foreign debt. After ten months of the year, copper prices had risen by almost 126%, the Peso had appreciated against the Dollar by 16%, and the stock market had increased by 39%. END SUMMARY.

Economic Activity Contracts 11 Months in a Row

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12. The Central Bank reported that the monthly economic activity indicator (Imacec) contracted by 0.1% in August and 1.1% in September 2009 compared with the same months in 2008. This makes eleven straight months of economic contraction. Experts had believed the Imacec was showing a deceleration in its rate of decrease. The seasonally adjusted Imacec for August 2009 actually showed an increase of 0.4% when compared with the month before (there was also an increase in July). However, September's seasonally adjusted Imacec decreased by 0.3% when compared with August's number. September's Imacec was unexpected and economists now hope October will demonstrate signs of positive growth.

13. In September, Chile's Industrial Federation (SOFOPA) reported that from March through August, industrial output contracted by 11.7% compared to the same period in 2008. The Chilean National Chamber of Commerce (CNC) reported, however, that retail sales in Santiago expanded by 1.6% compared to the same period last year. There was a 16% rise in sales of clothing and 3.5% increase in footwear. The CNC anticipates total sales will grow this year 2%-3%.

14. Chile's National Car Dealers' Association (ANAC) reported in September that July/August sales of new cars rose by 15%. However,

over the March-August period sales were still down by 44% compared to the same period in 2008. Also in September, the Chilean Chamber of Construction released the monthly indicator of construction activity (IMACON). The IMACON reached its highest level since October 2008, but was still well below its peak reached in August 2008.

#### Unemployment Finally Falls Slightly

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15. The National Statistics Institute (INE) reported that the national unemployment rate stayed at 10.8% during June - August 2009 and fell to 10.2% during July - September 2009. The last trimester marked the first drop in the national unemployment rate after nine straight increases. In the last period, unemployment decreased in 10 of Chile's 15 regions, remained in double digits in 17 of Chile's 33 largest cities (remaining above 14% in 6 of those cities, including almost 20% in Coronel), and fell to 10.1% in the greater Santiago area.

#### Downward Trend in Inflation Ends

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16. The INE also reported that the Consumer Price Index increased 1% in September compared with the preceding month and remained unchanged in October. This marked a departure from the deflation of previous months. The CPI's annualized change fell to -1.9% in October. The CPI has fallen by 0.6% since the start of 2009.

#### Interest Rate Maintained at Low Level

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17. The Central Bank decided to maintain the key interest rate (monetary policy rate) at its minimum of 0.5% in September and October. This was in keeping with a previous announcement by the Bank that the rate would remain in effect for a "prolonged" period of time, possibly six months. The Central Bank cut the rate to 0.5% in July, where it has remained for four straight months, after six previous reductions from a rate of 8.25% in December 2008.

18. According to the Central Bank, credit market conditions have improved, but remain tight. Market interest rates continued to drop in the third quarter, while bank spreads also narrowed. By September, the nominal cost of borrowing for up to 90 days was at an annual rate of 3.84%, down from 5.88% in June (and 16.44% in December 2008). The cost of loans with a maturity of 90 to 365 days had dropped to 11.4% down from a peak of 19.56% in January 2009.

19. On October 30, the Central Bank announced it will withdraw some of the non-conventional measures used to expand monetary policy in response to the financial crisis.

--The Central Bank will suspend the program of foreign currency swaps of up to 180 days. Weekly foreign currency swaps of up to 90 days, in the amount of \$400 million, will remain active until June 2010.

--Repurchase operations (REPOs) of up to 7 days will not be renewed

beyond December 2009, while solicitations for 28 days will be maintained until June 2010.

#### 2009 Trade Numbers Still Down

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¶10. By September, total Chilean exports were valued at \$37.4 billion, down by 31% compared to the same 9-month period last year. While total imports were valued at \$28.3 billion, down by 36.7%. Chile ran a trade surplus of roughly \$9 billion, which was about the same as the first 9 months of 2008.

#### Government Spending Up in Response to Crisis

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¶11. The GOC's fiscal spending climbed by 20.3% over 2009 compared to 2008, as a result of counter-cyclical policies designed to combat the effects of the international financial crisis. However, spending is projected to rise only 4.3% in 2010. Government revenue has also been hit by the international crisis, down by 33.1% in the first eight months of the year, compared to the same period last year. This is, in part, due to the large drop in state copper company Codelco's earnings, which fell by 97.7% during the same 8-month period, as compared to 2008. Tax collection from private mining companies also fell by 85.5% during the same time-frame.

¶12. The GOC forecasts a structural deficit of 0.4% of GDP for ¶2009. The Ministry of Finance has announced that it will not comply with the structural fiscal rule this year. [Note: Since 2001, Chilean law normally mandates a structural budget surplus of 1% of GDP. In May 2008 it was temporarily reduced to 0.5%, and this year to 0%, as a result of the economic crisis. End note.]

#### Foreign Debt Shows Small Increase

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¶13. Chile's foreign debt reached \$66 billion in August, up from \$64.8 billion at the end of 2008. As of September, international reserves were valued at \$26.1 billion, up from \$23.5 billion in June.

#### Investment Down Slightly

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¶14. During the first eight months of the year, foreign direct investment (FDI) was valued at \$8.6 billion, down from \$10.4 billion in the same period last year. Chilean FDI abroad reached \$4.6 billion, as compared to \$4.9 billion in the same period last year.

#### Copper Prices Keeping Moving Higher

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¶15. On the London Metals Exchange, copper closed at approximately \$2.98/pound on October 30. The price of copper was up almost 126% since the beginning of 2009.

Chilean Peso Still Appreciating Against Dollar

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¶16. On October 30, the observed exchange rate closed at approximately 532 Chilean Pesos to 1 U.S. Dollar. This rate marks an appreciation of about 16% from the beginning of 2009.

Stock Market Also Continues Gains

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¶17. The IPSA closed at 3314.45 on October 30. The IPSA is up almost 39% after 10 months of 2009.

SIMONS